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Zurich's bustling Bahnhofstrasse: Home of the gnomes

Jean Zbinden

Where Money Talks in a Hush

*Money alone can't bring happiness—
unless you've got it in a Swiss bank.*

—A popular German saying

By the looks of them, they could hardly be a more staid, hard-working or guileless group. They arrive at their somber office buildings on the tree-lined Bahnhofstrasse in Zurich, Switzerland, before 8 o'clock six mornings a week, impeccably attired in dark, custom-tailored suits. For nine hours or more behind neat, geranium-boxed windows, they work amid the muted elegance of paneled walls and period paintings. The loudest sounds seem to be the gentle sighing of swift elevators and the soft swish of shoes on ankle-hugging carpets. It is a noticeable common vice, it is a fondness for Swiss chocolate cake, which gives many of their silhouettes an indulgent pear shape.

These men of the Bahnhofstrasse—the Wall Street of the Continent—are the celebrated, and often berated, bankers of Switzerland, or, in the catchy phrase popularized a few years ago by former British Economic Minister George Brown, "the gnomes of Zurich." Few groups, outside of perhaps the Mafia, have been the target of quite so much international innuendo. Because of the ironclad secrecy that envelops Swiss bank accounts, the bankers are generally pictured as gluttonous hoarders of great fortunes, diabolical manipulators of international

commerce or sinister shielders of big-league criminals and tax evaders. "We are credited with all these powers," sighs Eberhard Reinhardt, general manager of Switzerland's largest bank, the Swiss Credit. "I do not understand," he adds, throwing up his hands.

As the world's third largest financial center after New York and London, Zurich's banks unquestionably wield great power with their huge deposits of foreign funds and the global investment leverage that this rich treasury gives them. And this power, particularly the uniquely relaxed banking laws that have helped spawn it, is under attack now as seldom before. Most European nations and the U.S. have been accelerating their attempts to get the Swiss to plug the legal loopholes that make some of their banks seductive asylums for ill-gotten international money. As one U.S. tax official remarks: "When I go to sleep at night, I see pictures of dapper little men carrying satchels of money around Zurich. It's not too amusing when you think that part of it belongs to us."

The most stinging broadside against the banks in years appeared just two months ago in the prestigious Financial Times of London. "Switzerland," the paper charged, "is coming to be increasingly used as a base for financial piracy." In one of its infrequent responses to a public charge, the Swiss Bankers Association called the accusation "baseless" and in-

sisted that Swiss banks "have neither the interest nor the inclination to jeopardize [public] confidence by helping to cover up criminal intrigues."

Tax Bite: Still, for the first time in more than 30 years, the Swiss Government has begun to acknowledge the foreign clamor. Only last week, it moved to strengthen the Federal Banking Commission by expanding the membership from five to seven, and it is studying new laws that would set stricter ground rules for new banks and toughen penalties for mismanagement. The government has also signed limited agreements with Great Britain, France, Italy, the Netherlands, Spain, Sweden and the U.S. to help discourage tax evasion, and is now negotiating a similar pact with West Germany.

Even these concessions, though, are not likely to stunt little Switzerland's remarkable, centuries-old status as the world's happiest haven for expatriate wealth. For the Swiss, with few natural resources, no ports, and no standing army, have made themselves an international power to reckon with by their shrewd, solid management of their own and other people's money. "If you see a Zurich banker jump out the window," Voltaire is supposed to have counseled, "follow him. There is money to be made on the way down."

For foreigners, Swiss banking service does not come cheap. The banks now pay no interest on foreign deposits; in some cases they even charge 1 per cent a year just to let a customer keep his money with them.

Banker's Choice: With 43,000 banking outlets, or one for every 1,300 citizens (vs. one for every 6,300 in the U.S.), Switzerland has more banks than dentists. The Swiss, in fact, often use banks as landmarks for giving directions to tourists. The functions of the banks, which manage or control accounts estimated to be worth \$70 billion, are much broader than those of U.S. banks. They not only accept deposits and make loans but also act as stock brokers, financial underwriters and mutual-fund managers. In addition, they can—and do—own controlling interests in any industrial companies they choose. "In the United States we Swiss bankers would all be in jail," smiles Nicholas J. Baer, one of the four Baers who preside over Zurich's Julius Baer & Co., reportedly Switzerland's largest private bank. "We violate any antitrust law that was ever invented or is yet to be invented. We are a perfect cartel."

As Baer indicates, the Swiss banks' franchises are so sweeping and the conditions under which they operate so loose that they are, in effect, a power unto themselves.

This circumstance, as well as Switzerland's unique reputation for stability, neutrality, conservatism and sound cur-

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rency, has helped attract a golden tide of foreign capital. But in the last generation, the most irresistible lure of all, of course, has been the banks' assurance of inviolable secrecy through Switzerland's famous numbered accounts. Only two or three bank officers know the identity of a depositor, and, under a 1934 law passed after Nazi Gestapo agents succeeded in learning the names of a few Germans who were hiding funds in Switzerland, a banker can be imprisoned for six months for revealing account holders except under a court order in criminal cases.

Many numbered account holders are, strictly speaking, legal. They can be inflation-minded South American businessmen who want their money in stable Swiss francs. Or they can be movie stars who move to Switzerland to escape high taxes at home. They can even be the Central Intelligence Agency and European intelligence services which maintain Swiss accounts under discreet covers to pay agents or finance operations.

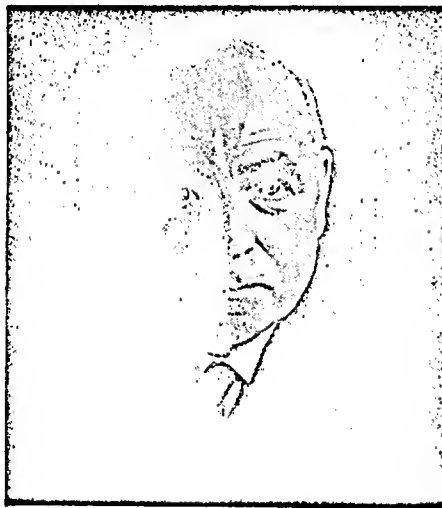
Hide and Seek: It is other, less savory depositors who have given the numbered accounts a bad name. Juan Perón of Argentina salted away \$15 million and Fulgencio Batista of Cuba \$3 million, for example, before they were overthrown. Moïse Tshombe put most of the Katangese national treasury into a Swiss bank in 1963. Even now, certain Communist chieftains are strongly rumored to have substantial sums in Switzerland as a hedge against the future. U.S. police a few years ago found that a giant narcotics ring was stashing its proceeds in three numbered accounts. In 1964, U.S. salad-oil swindler Anthony DeAngelis confessed that he had secreted \$500,000 in a Swiss bank. And just last month, Chicago auto-dealer Harold G. Townsell, 60, journeyed to Switzerland under a court order to retrieve \$410,000 that he had tucked away to avoid taxes.



Hans Baer: Defending the traders

At heart, the unfavorable image of Swiss banking stems from the sanctuary its system gives to such financial fugitives. In Switzerland, unlike most other countries, tax evasion is not a criminal offense. If tax-evasion money gets into a Swiss account, the Swiss absolutely refuse to cooperate with foreign police who seek to open their books. Thus U.S. authorities were rebuffed when they went to Switzerland with a tax lien seeking Texas promoter Billie Sol Estes's missing \$7 million. The Swiss contention is that if other countries can't keep track of their own law evaders, it's not Switzerland's fault. Alfred Schaefer, head of the giant Union Bank, is fond of noting that "nobody can be his brother's keeper."

Numbers Game: Still, it is not that easy to get a numbered account in a major bank. Many will not accept an initial deposit of less than \$10,000, although some shrewd bankers like lanky



Reinhardt: Deploing the critics

Hans Vontobel, head of J. Vontobel & Co., will occasionally relax the restrictions. Vontobel, on sheer intuition, accepted a deposit of a few hundred dollars several years ago from a seedy looking Frenchman. Months later, the Frenchman, satisfied by the bank's handling of this insignificant sum, returned to Zurich with several million dollars.

Before they will take an account, the major banks insist, they must know the true identity of the depositor, then satisfy themselves that the money has not been stolen, and finally get the customer to sign a statement that his purpose is not to avoid taxes. Max Zaugg, a top official of the Vontobel bank, concedes that there are banks that will accept shady customers, but, he maintains, "they are not on the Bahnhofstrasse."

Even so, the numbered accounts are often handled in an E. Phillips Oppenheim manner. Foreign depositors can get an account in their own name if



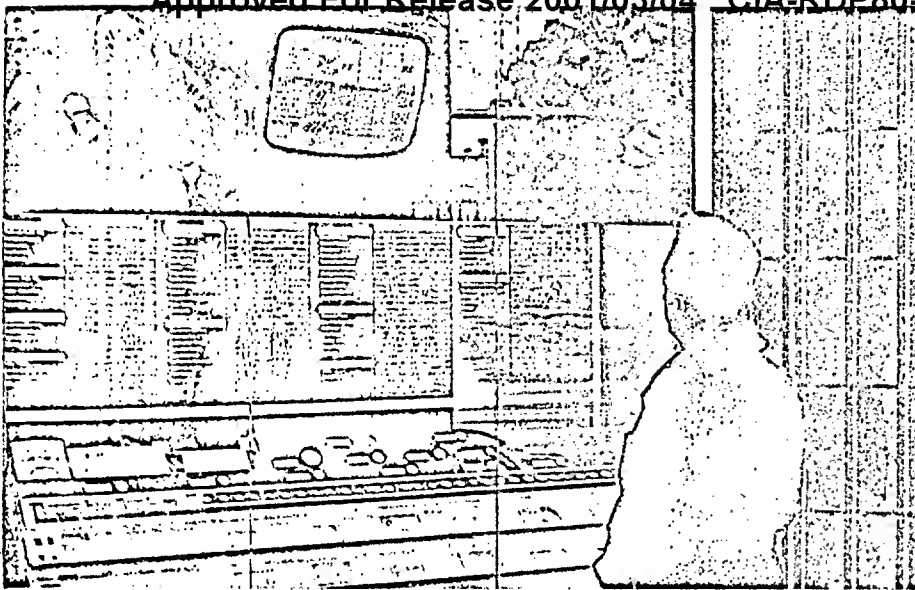
Photos by Jean Zbinden

Vontobel: Relaxing the rules

they want to, but if they request—and get—a numbered account, the number (often four digits) thereafter becomes their official signature. Correspondence is normally conducted in elaborate code and sent in plain brown envelopes that special couriers often take to the customer's own country to mail so that there will be no Swiss postmark to attract attention. Swiss banks also maintain networks of semiclandestine agents in other countries to carry money and lend a touch of personal service to large clients. In Italy, for example, these agents are known as "topi" (mice), and they usually are completely respectable businessmen who moonlight for the banks.

The secrecy curtain was compromised recently when a 56-year-old Union Bank clerk, Marcel Venat, managed to photocopy lists of the bank's numbered-account holders. With the assistance of a Basel hairdresser, he sold the lists to a group of German gangsters who then blackmailed the depositors. Venat and the hairdresser are now in prison but the Union Bank lost a number of important accounts in the aftermath.

Quiet, Please: Such scandals are extremely rare and embarrassing to the banks because they take such pains to guarantee their customers' cloak of secrecy. Their street windows on the Bahnhofstrasse—decked out with gold bars, currency and closed-circuit television reports of stock-market prices from around the world—may be impressive and eye-catching. But behind this façade, they make discretion the better part of business. They have special secret entrances through neighboring buildings for customers who want to preserve their anonymity on office visits. They never talk with customers in wide-open ground floor halls as U.S. bankers do. Each customer is received individually upstairs in a modern, soundproof room. No matter how tainted money may



David Egli

Zurich bank window: Behind the façade, secret doors and quiet rooms

be when it enters Switzerland, though, it all comes out looking the same once it has washed through the Swiss banks. The profits from drug-running can be put to the same reputable uses as a family fortune built up in sewing machines. Thus, the money that Premier Tshombe socked away in Switzerland in 1963 all wound up in eminently respectable investments on Wall Street.

The Zurich gnomes generally are as conservative in investing their money as they are liberal in accepting it. After dropping millions in underdeveloped countries after the war, they now confine their investments largely to solid U.S. and European enterprises. Swiss money is used for everything from the building of bridges in Norway to financing a steel-plant expansion in Italy. Currently their interest rate on business loans is 6 per cent, just about the cheapest in Europe—and cheaper than the going U.S. rate. The banks are cagey—often completely secret—about their own profits, but one estimate is that earnings of public banks rose by 7.5 per cent to \$100 million in 1966.

Only Us Chickens: With their dealings in foreign currencies, the Swiss banks also play a key role in international capital markets. But on this score they have recently been accused—notably by the *London Times*—of irresponsibility in the periodic selling waves that have depressed the shaky English pound. The Swiss bankers adamantly deny that they initiate any pressure. "Our foreign traders who are so often said to speculate against the pound are most often not speculating for their banks but rather assisting their international clientele," is the bland response of Hans Baer, partner at Julius Baer & Co.

Increasingly, the Swiss bankers blame abuses on the spate of foreign-owned

banks that have opened since the war to capitalize on the system—including the Russian-owned Wozchod Handelsbank that set up shop just off the Bahnhofstrasse last October.

Swiss Cheese: Some of these banks, the Swiss imply, are in business solely for shady purposes. One foreigner, Spanish promoter Julio Muñoz, was responsible two years ago for one of Switzerland's greatest banking scandals when he bought two Swiss banks and used their funds for wildly speculative investments. Muñoz's dealings allegedly involved Federal Banking Commission president Max Hommel and Hommel was dismissed. "We are definitely unhappy about foreign banks of a certain kind," Nicholas Baer says. "While we don't take the money of a man who refuses to reveal his identity, some of the shyster banks will. Then, if they go broke—and many will this year, next year or by 1970—all over the world it will be said that a Swiss bank has gone bankrupt."

The banking community, thus, generally goes along with the proposed government reform for toughening the qualifications for opening a new bank. But most oppose such other measures in the reform package as strengthening the Federal Banking Commission's control of bank activities and imposing more severe penalties for mismanagement. Many bankers predict these reforms will not be adopted for some time—if ever. Even if they are, they will not do much to correct the basic permissive features of the Swiss system to which most foreign experts object.

So unless international pressure can force more far-reaching changes, the Swiss banking system is likely to remain as secretive and controversial as ever. Dark suspicions will fester abroad and

the legend of the shadowy Zurich gnomes will spread. But on the Bahnhofstrasse, the bankers will quietly continue to accept and administer the exile capital of the world. "To many," says the Vontobel Bank's Zaugg, "this money haven should not exist. Everyone seems to attack us from time to time. But these attacks on our fortress will never succeed."